# "Titan Company Limited Q3 FY'21 Earnings Conference Call"

## February 10, 2021

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**MS. SUPARNA MITRA – CEO OF WATCHES & WEARABLES DIVISION**
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**Moderator:** Ladies and gentlemen, good day, and welcome to the Titan Company Limited Q3 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. C K Venkataraman, M.D., Titan Company Limited. Thank you, and over to you, sir.

**C K Venkataraman:** Thank you very much, and good evening to everyone on the call.

I'm joined here by my colleagues; Suparna, Rajeshwari, Manish, Dinesh, Nandu, Saumen, Ajoy and Subbu, and a new colleague who has joined us, who is Ashok Sonthalia, CFO-Designate. Welcome, Ashok.

I'm also happy to share that we had our first in-person board meeting after one year. The last board meeting of the board in-person was in February on the same day in 2020 were an eventful year. And it was wonderful to meet with the Board members in Chennai and share results of such significance. It was also great to talk through calendar '20 on a high note like this. And I would like to thank all of you on the call for the great encouragement, support, pushing that you keep doing on us all the time. And I would also like to thank all the workers of our vendor partners, Titan Company's own employees in factories, in offices, in stores and all our retail partners and their staff, who braved particularly the first few months of COVID and even thereafter, and continued putting themselves at some risk or the other, helped the company deliver a performance, which is very, very encouraging, gratifying and points to a very solid 2021 and FY'22 as well.

The presentation has anyway been uploaded. So I have nothing particular to share. We're all feeling very, very happy and pleased with the results. And I would like the questions to begin.

**Moderator:** Thank you. The first question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

**Manoj Menon**: I have only one question actually. So take a step nine months back, when we looked at, let's say, all of discretionary consumption, the assumption was that, paint is more of a postponed demand, whereas let's say, an airline seat is a perishable commodity. So you kind of had some views saying that, okay, there are certain demand which will come back at some point in time, but there are certain lost demand. Now when I look at Asian Paints reporting a 33% volume growth in the current quarter, the only thing which I had to do was look at the nine months growth rather than one quarter. But 33% tells me that some of the postponed demand has actually… pent-up demand or postponed demand whichever word we use, appears to have materialized. But when I look at jewelry, I know I can't generalize jewelry because I don't really have a peer group to compare here. The 16% revenue growth appears a little underwhelming in my observation. Honestly speaking, if you think this observation is wrong, happy to take that because my comparison is not just with paints. So when you look at, let's say, Havells results or a Crompton results or paints as a basket, let's say, what Berger reported, so it is across discretionary consumption, in general, appears to have had a much faster recovery versus jewelry was my generic observation.

**C K Venkataraman:** I have no particular comment because it's very, very difficult to compare jewelry recovery with paints or fans for example. All I can say is that we had a certain recovery target in mind which we have been sharing quarter-after-quarter, which is certainly to reach 100% levels by Q4. That was if you recollect in fact start delivering growth by Q4. And we are ahead of our own recovery rate targets, and that's what is satisfying to us without really getting into across category comparison because it's a very complex subject. I don't know if anyone will have a handle on that kind of especially categories which are that widely different from a category like jewelry.

**Manoj Menon:** Just one follow-up on this; in your view, is it anything to do with the revenue mix which you have with a relatively lesser wedding exposure, let's say, versus other players which would essentially mean that perishable commodities/lost demand possibly for you could be a little higher than some of your larger competitors. Is that even a right hypothesis for me to even think about?

**C K Venkataraman:** I'm not really sure, Manoj, it's a very complex sort of scenario that you are building for which I have no easy answer.

**Manoj Menon:** Okay. No problem. I'll touch base with Pulkit separately on this. And I just also wanted to thank Subbu for all the help all these years and wanted to wish him all the best for the next phase in career. And also wanted to congratulate Ashok and all the best to Ashok as well.

**Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** My first question is on Eyewear. Last many years, Eyewear margins have been either negative or hardly any profit. But Q2, Q3 significant improvement you have called out this quarter, better product mix, lower discounts. So what is driving this better product mix? And second, lower discounts, is it because Lenskart has reduced its activities both on advertising and promotion significantly, and do you see that as structural or just one or two quarter phenomena?

**Saumen Bhaumik:** This is Saumen here, Abneesh. I handle the Eyewear business. Our observation is that we have been consciously driving consumer discount down, right from the Q2 onwards ever since we have reopened the business. That's factor one. And we have been also looking at channels which are not really productive. So, we have either marginalized some of the channels or even exited some channels. So therefore you look at it our overall payout has significantly come down. Second thing, we have managed by focusing more on house brands. We have been able to contain our material cost to about below 21% compared to last year say about 24%, 25%. These are the two factors which has significantly influenced our GC and consequently the final PBT.

**Abneesh Roy:** Any comment on Lenskart because they have been the disruptive player in the segment for many years, any change you are seeing there?

**Saumen Bhaumik:** Frankly, their facts and figures are not so transparent. So we don't really look at their facts and figures. We look after our customers. We do what we think we are good at and that's about it. No comments on Lenskart.

**Abneesh Roy:** My question was more on the market, not on the numbers, but I got the message. The company has been focusing on the core. So you did divest some of the non-core. So this Rs.137 crore write-off, which has been taken in Favre Leuba, does it mean that medium, long term you would look at divesting even this part of the business?

**S. Subramaniam:** So I think the Rs.137 crore we at least talked about it in the press report that we made when we took that decision to scale down our Favre Leuba. Then from our perspective at this point it didn't make sense investing further. And I think it's just a question of saying not now. We will continue with Favre Leuba in India. But as far as the global ambition at this point is concerned, we said it didn't make sense particularly with the pandemic hitting us so hard. So it was just that. Nothing else.

**Abneesh Roy:** On studded share 26%, so high gold prices in general and the gold doing well. So beyond 30%, is it looking tough next one year to touch in the studded?

**Ajoy Chawla:** Ajoy here. No, I think we are beginning to see very good recovery in studded as well. I think when you're looking at ratios, it's a weighted average effect of plain, coins and studded. So coins and plain continue to do very well for various reasons. So we are happy because studded has shown a good growth in Q3 and seeing a 9% growth is good. We are into growth from recovery and we are seeing better growth now as well, in fact, in Jan it's even better. So the ratio is certainly going to be higher as we go forward. Q4 already because we have started activation, the ratio will be certainly much higher. Q3 is a low studded ratio quarter in any case.

**Moderator:** Thank you. Next question is from the line of Avi Mehta from Macquarie. Please go ahead.

**Avi Mehta:** I just had two questions. One on the franchisee health in the Watch segment. We've seen like significant amount of closures for some time. Just wanted if there are any measures that we are taking or how is the general franchisee health over there? And B), I wanted to kind of just build on the comment that Ajoy said about Jan being healthy. Any idea of how we are trending in terms of growth rate? Has the strength of 16% continued or kind of gone up given this activation?

**Ajoy Chawla:** Retail growth was actually 13% in Q3. The primary NSV showing up at 16% including exports. We are seeing about a 28% growth in retail in the month of January.

**Avi Mehta:** The activation part you said studded share also is the reason for the driver, right? I just wanted to reconfirm that.

**Ajoy Chawla:** Yes, so studded is also growing pretty well; studded has climbed from 9% growth in retail of Q3 to 16% growth in Jan. The ratio is sitting at 39% in the month of Jan. But that's typical. 43% was the figure last year in January.

**Suparna Mitra:** On the franchisee health, we have actually closed a few Fastrack stores because their turnover was anyway little low and due to COVID they became unsustainable. But otherwise franchisees are on track. We had given them a lot of support in terms of not giving them extra stock and helping them liquidate stock before we billed them further stock and overall a lot of support in getting more consumer demand back. So franchisees as such a lot of stores are now in the growth path and others are also recovering well. Better news from the smaller towns and better news on high street than on malls. But overall, the franchisee community they are now geared up for growth both in this quarter and in the year ahead.

**Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

**Percy Panthaki:** I just wanted to ask from a different angle. I think in Q3, we would have seen a lot of sort of pent-up weddings, those people probably would not have got married in the first six months of the fiscal, all of them had their functions, etc., in the third quarter and maybe to some extent that continues in the fourth quarter. And therefore there is probably… and correct me if I'm wrong, some kind of sort of temporary support to the top line coming from this, and let's say, by March, if the pent-up demand of weddings is sort of exploited already and then we go into a normalized period from April onward, do you see any risk to the top line from this phenomenon?

**Ajoy Chawla:** So weddings have been good in Q3 and Q4; wedding growth was 10% in Q3 for us and is trending upwards at 16% in Jan. We expect wedding demand to continue to be double-digit growth in Q4, and in fact, our expectation is Q1 next year we'll also see a lot of weddings. So next five to six months, we are very bullish on wedding. So I don't think that's going to impact top line, in fact, it should benefit us.

**C K Venkataraman:** Also, one of the theories we had, way back in April, May, and it's turning out to be correct, total absence of travel as well as substantial pruning down of the pomp and splendor in the celebration of weddings, the jewelry purchases in families will get a boost because of share of overall wallet increasing. And more and more franchisees have been actually talking about this phenomenon. And '21 is going to be no different from both this point of view, certainly travel. To some extent, the celebrations may improve a little bit, but nothing like what they were, I'm sure there are not going to be 5 cuisine dinners and stuff like that which we used to have. So therefore, apart from the weddings of 2021, I think the share of the wedding jewelry within the overall wedding expenditure is going to benefit the industry and Tanishq as well.

**Percy Panthaki:** In Q3, wedding jewelry grew by 10% versus 16% overall growth. So actually wedding grew slower than the overall growth despite the sudden pent up sort of number of weddings coming up in Q3. I would have thought that actually the wedding jewelry growth in Q3 would have been much higher than your overall growth. So what is the lack of understanding on my part here, why is this not happening?

**Ajoy Chawla:** So first of all, 16% is a primary NSV sale including exports. Retail value growth is 13%. Against 13%, it's 10% growth in wedding. We saw a good jump in coins as well and high value studded during Q3 which were ahead of the growth. Coins, of course, continues to do very well over the last several quarters because of bullishness on gold. But high value studded has come into play in a big way, and we are seeing that growth also jump up. Some of it could be wedding because we tend to classify only the plain jewelry into wedding. Difficult to kind of categorize that. To conclude, contribution of wedding is 20% to the overall sales this year as well as last year. So what I would like to say is that the overall wedding contribution has now picked up to same levels as last year.

**Percy Panthaki:** Second question is on the Eyewear and to some extent even the Watches margins, which have clearly surprised at least me on the upside. And I understand that you've done a lot of cost engineering here, but I'm sure that some of the cost engineering is sort of not permanent in nature, I mean, some of these costs will get restored as the business improves. So just from that point of view, can you give some idea on what part of the cost engineering is permanent in nature, and therefore, what kind of sustainable margins we can see in these segments once the demand is restored and we're actually seeing growth in sales because your Eyewear margins have been zero to minus 2% in the last few years, watches also has been close to what you've reported now, whereas your sales are actually 12% down, so if they were let's say growing at 10%, 12%, it would have been much higher than 10% also, so just some flavor you can give on the sustainable margins of these two segments given the cost cutting initiatives that you've done.

**Saumen Bhaumik:** On the gross margin level, as I said, our overall payout has been controlled quite a lot, not all of which will be sustainable, let's say, in the Q3 if our overall payout is 37% this year compared to I think it was 42% last year, it would probably go to a level of about 40% because house brand contribution has significantly risen in the last several months and especially Q3. I think other non-Titan brand contribution could rise as we go forward. So therefore, payout would probably go up. And consequently, it will also influence our Mat cost. So therefore, we estimate that next year, that is FY'22, probably we'll see a gross contribution of somewhere around 64%, 65%. But it will be higher than before.

**S. Subramaniam:** Question is also on overhead. Yes, we do have two types of savings this year; one is what we call internally sustainable savings, and this is part of the overall waste program that we ran. These savings will continue into FY'22 also. This today, as a ballpark would be roughly 50% of the total savings that we achieved in 2021 because the biggest cut that we are actually taking this year is advertising in 2021 because of the level of activity that we are having. Having said that, I think by Q4, we are very close to the normal ad spend. But the overall spend so far has been lower. Of course, we did get rental waivers due to the pandemic as well and a few things like that. But sustainable savings are still a fairly material part and will continue to deliver higher margins from the next year.

**Moderator:** Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

**Aditya Soman:** Firstly, I just wanted to check on the status of Golden Harvest. How has the recruitment trended in the quarter, and where do you expect recruitment to be over the next six months or so?

**Ajoy Chawla:** We've seen a good recovery in the Golden Harvest enrollment. Q3 are still below what we would have wanted. Internally, we are targeting higher. But it's picked up pretty well. And in fact, Q4 also it's been a very good pickup. So we are now very, very confident of the enrollment going up considerably over the next couple of quarters. So I think the recovery has moved into growth mode even there, and it's directly linked to a number of buyers. So far just to clarify even in Q3 while our total retail growth was 13%, it was on the back of ticket value growth, in terms of number of buyers still at a 97% recovery on retail. Golden Harvest enrolment kind of followed that pattern in terms of buyer recovery. So we are now seeing growth in buyer and therefore also Golden Harvest in a stronger manner in Q4. So outlook is very positive.

**Aditya Soman:** Just following up on that, in terms of 28% growth in Jan, you mentioned that the footfalls have also now improved. But what has been the main reason for the acceleration in growth say from 3Q to January, and especially given that the base for gold prices will also start normalizing I guess at some point in Jan, Feb.

**Ajoy Chawla:** In the month of Jan, we have seen growth both in walk-ins as well as number of buyers itself. We're seeing a very healthy 13%, that's a double-digit growth in the month of Jan in terms of number of buyers itself. And yes, ticket prices will start kind of normalizing downwards, but yes, that's how we're getting the 28% overall value growth.

**Aditya Soman:** I think that's very clear. I think that partly also answers the first question on sort of why growth has been somewhat different for your category compared with say some of the other categories, but I think that is answered.

**Moderator:** Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

**Prasad Deshmukh:** Two questions; firstly, in the first three quarters, how much of the purchase in gold jewelry for Tanishq was initiated by the consumer online? And also do you believe if at all this was a big number, it's a lasting trend hereon?

**Ajoy Chawla:** Online plus joint closures, if you look at it this way, they may complete the transaction online itself or might finally come and buy it with a conversation with the store. So overall, that has been close to 3.5x of last year. So we are seeing a huge jump in online and omni if I would call it. The other bit related to digital is we are also seeing a huge jump in video calling, that is remote shopping, both video calling and endless aisle. So all these put together, we are clubbing under the digital engine, which is seeing a very good jump this year. As a proportion, it is still quite small. I would say the omni plus online piece is still 2%, 3% kind of number, but we are seeing that climb quickly. And total digital including remote shopping is trending around 7.5% to 8% of the total sale, which is including remote shopping and endless aisle.

**Prasad Deshmukh:** Second question is, there are the stocks of gold exchange regulated by SEBI. So I just wanted to get your thoughts on how this will impact the industry's pricing of gold, and if there are any cost implications for Titan especially in terms of the way you hedge the gold?

**C K Venkataraman:** **I**'m not aware of anything that come under this. So may have to wait until we get some clarity on what this is about. I don't know.

**Moderator:** Thank you. The next question is from Amit Sachdeva from HSBC. Please go ahead.

**Amit Sachdeva:** So given the jewelry has been discrete and plenty, I just wanted to sort of ask you something about Taneira, and we are at the 14 stores and perhaps COVID has been a disruption year for apparel and in general. But if not for COVID, are you really happy with the KPIs per store now, and in that context, if you could share some thoughts on the Taneira business plan, when this format will be ready for, say, capital-light expansion, are there any supply side challenges in scaling up? And we noticed kurtis has been launched. So pret-a-porter kind of proposition is being added. So where are we on the expansion journey? And are we in the same phase where jewelry was in late '90s? And how basically large do you think this opportunity could be? Is it a safe assumption to make that it could be a potentially very large new business?

**Rajeshwari Srinivasan:** Thank you, Amit. Very interesting question. We've got about 14 stores now across six cities. One of the biggest growth we've seen is in tier-1, tier-2, tier-3 towns. And we've been addressing it very differently this year despite COVID. In the last two months, we've started a concept called "Trunk." These are largely pop-up stores, three day events across many of our sister brands, mostly Tanishq stores, which brings in a different set of customers, many of them new to Taneira, some of them new to Tanishq itself. So we've seen a ramp-up growth across. We've had about 12 Trunks so far in the last two months, since we could start moving out. So we see a lot of growth between tier-1, tier-2, tier-3. We plan to have over 75 Trunks following the trend in FY'22. So that's where the growth will come from. The second one is, as Ajoy has already mentioned, which is on remote shopping. We have a concept called "Try-At-Home." We show them on a video what the products are all about. We take them across to their place and sell the products to them there. So Try-At-Home, Video Calling, have been two notable ways of reaching out to customers. We've also just launched our Omni Aisle product just gone live a couple of weeks ago, wherein all our products are available online for customers to shop from anywhere. So we see the growth coming in from tier-1, 2, 3. And as far as existing stores in the metros are concerned, we see a lot of increase, we've got about 17% growth in the ticket size which is driven by wedding shopping. So the discretionary shopping is slowly coming back. We're seeing signs of it in January. But wedding shopping has been holding us in good stead. So many more tier 1, 2, 3 Trunks coming up, a few more stores saturating the existing six cities is what we are looking at.

**Amit Sachdeva:** So is the e-commerce be a big driver? My question was that your ready-to-wear or pret-a-porter kind of proposition is being added with kurtis, is this the play going to change like from a product profile point of view because that could create a very different kind of consumer coming to store? The reason I'm asking this question is that we are at 14 stores, and we have around 350-odd Tanishq plus stores. And are these the natural owners of even Taneira franchise nearby or how do you see the scale-up in five years, should we assume that it will be like 300 stores in five to seven years, or maybe like a very slow build, how we should like think about this business?

**Rajeshwari Srinivasan:** So we are looking at it in two different ways. One is bringing it closer and ramping up the customer experience. As you know, Taneira is a very different format from existing saree store. So we are looking at expanding and exploring our browsing format and larger number of customers experiencing our product. And as we go along, certainly, a larger number of stores we are still crafting out five-year strategy. And going forward, I think we will see a lot more mirroring of the Tanishq play. Certainly, the customer is almost 90% common. So as we get…..

**C K Venkataraman:** **…**to share concrete stuff in our May investor conference.

**Moderator:** Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

**Richard Liu:** Subbu, if I look at the segment EBIT growth for the quarter, it is something like 11.5% for the standalone business, all segments together. But then if I look at the EBIT growth in the P&L, that is about 17.5%. And I guess the only difference between the segment EBIT growth and the PBIT growth in the P&L is the unallocable line. So what has really happened in that unallocable line to have driven profit growth of the company by five percentage points higher?

**S. Subramaniam:** Maybe the Rs.137 crores of extraordinary I think that we...

**Richard Liu:** This is excluding extraordinary.

**S. Subramaniam:** Maybe I'll get back to you on this. I'm not able to see the number here.

**Richard Liu:** Venkat, this is more from a broader consumer perspective, and I've been a little perplexed by really what's happening in terms of consumption growth, right. So one has really gone through this pandemic which probably is one of the worst human crisis we've seen at least in our lives in recent times. And if I look at growth that was there pre-pandemic and post-pandemic, everybody seems to be wanting to consume more and willing to consume more and spend more, be it jewelry, be it what Manoj said about paints and other consumer durables, be it housing, etc., Based on your insight vis-à-vis your conversations with either franchisees or consumers, what do you think is responsible for this kind of a behavior because it seems counterintuitive to me, and I'm not really able to get as to why would behavior be this type, I know you talked a little about lower travels and lower spend on weddings, etc., But the whole pickup in sentiment despite the fact that we have job losses, income losses, etc., in the economy seems to be totally paradoxical so to say, if I can request your insights here if you have any.

**C K Venkataraman:** One thing would be the segments from an economic loss point of view that, let's say a company like Titan is dependent on. And while there are job losses and all that, that you are referring to, Titan company is dependent on the middle and affluent, upper middle, high, very high dependence on even salaried class, for example, as opposed to business class for its own business. And the salaried class of the kinds that Titan targets, generally, by and large have been left protected by even the employers. While they may be having some small pay cuts and stuff like that, but the jobs are being there. So many of us actually sitting at home spending less on many things that we would otherwise, not including eating out, movies. One of the directors was telling me that the expenditure on petrol was crashed because the car is not being used. My income maybe hardly dropped and my expenditure on some of these things is substantially low, and I'm sitting at home, starting to get a little frustrated. I'm not myself there, okay, I'm just talking about the world. And therefore, there's a sort of pent-up feeling in me to enjoy, right. And, of course, many companies have given gifting as a concept. Therefore, even if there is no need from a consumption point of view, but the gifting sort of counterbalances that gap in demand perhaps and gets product to somebody who ends up using it, even if not wanting to buy it himself or herself. So these are factors at play, very, very difficult to actually pin down honestly. But the best guess is of this kind of underlying...

**Richard Liu:** I'm surprised. Venkat, you did mention the ubiquitous unorganized to organized element out here. Is there nothing of that incremental that you see at all in this whole phenomena?

**C K Venkataraman:** You're right, certainly, in jewelry, we are seeing it very, very markedly. Also, the supply side challenges that the unorganized sector normally faces have been aggravated in these times because of finances and all that and even problems with vendors in terms of their own supply side challenges. Second is, somewhere I think consumers are also finding big brands and in categories like jewelry the trust and authenticity also driving greater acceleration towards brands like ours.

**Ajoy Chawla:** So I'll add a little bit to what Venkat said. Actually, the ticket values in jewelry growth in the greater than Rs.1 lakh, greater than Rs.2 lakhs is much better, in the sub Rs.1 lakh, in Q3 it was still on a recovery mode in terms of sheer number of buyers. So that kind of reinforces a little bit of what Venkat has said.

**C K Venkataraman:** The point you said about the organized benefiting from the unorganized, just giving an example of yesterday, Bhilai and Durg are twin cities and we have a store in Bhilai. And I was talking to the franchisee yesterday. And he told me that there was an Rs.8 lakh diamond jewelry purchased by a sarpanch in a village outside Durg. And he was keen to know what happened and he called him up after a week after the guy had bought. And that guy said, I normally buy from the local jeweler in Durg, but my daughter is studying MBBS in Bangalore, it's going to be her wedding, and she said to buy Tanishq. So therefore, somebody would normally have bought from an organized jeweler is buying because the next generation is impelling the family to buy from Tanishq. So partly he trust, but I'm sure mostly the diamond brand and the aspiration values of Tanishq. So some acceleration in this is also happening because of these broader factors.

**Moderator:** Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

**Jaykumar Doshi:** How has making charge net of discounts trended on per grammage basis over the past 12 months for you at a portfolio level and adjusted for higher gold coin sales if you leave aside that, but if you look at your wedding jewelry and studded portfolio, we've seen 30%, 40% increase in gold price, have you been able to pass on a similar increase in making charge to the customer, and has industry also passed it on?

**Ajoy Chawla:** We are seeing making charges for plain jewelry holding up pretty well as a percentage. So even the per gram has gone up in line with the rise in gold price. We have not really seen any problem on that front.

**Jaykumar Doshi:** Customers have absorbed that along with gold price inflation. And does it change price competitiveness your positioning versus some of the local regional players or unorganized or even that segment has also moved to along that?

**Ajoy Chawla:** I've not seen a dramatic shift in the making charge related issues so far in Q3 or even brand for that matter. If at all, there is some amount of competitive intensity on the gold rate itself in terms of per gram and whatever different players are charging. So most of the competitive intensity is seen around the gold rate. And there in different markets is a different story. But on an overall average, yes, there is a slight downward trend especially in Q3.

**Jaykumar Doshi:** Could you talk a little bit about some of the steps that you may have taken as a part of your "War on Waste" program, particularly on the procurement side or reducing your cost of the making or production for you, anything that you can highlight specifically for jewelry?

**Ajoy Chawla:** We have looked at it at two, three different angles. One is we work very extensively with our vendor partners as well as in-house. So we have in a way worked more towards lower cost production basis or supply basis, that is one angle. Second angle is we've looked at some savings in stone procurement, diamond procurement that is. And the third piece that we are doing right now is also looking at some amount of product reengineering to enable lower price points as well as to kind of reduce the weight of products. So these are the top three things that we've done in terms of making charges. Labor charges, beyond a point, it did not make sense to squeeze vendor partners because they also faced a pretty challenging position, and we didn't think it makes sense to do that. So we're working with them to innovate and thereby reduce the cost of the product by itself.

**Moderator:** Thank you. The next question is from Kunal Vora from BNP Paribas. Please go ahead.

**Kunal Vora:** My question is on jewelry. How should we look at FY’22 over FY'20 for the jewelry division? I think in 2019, you had mentioned that sales growth in jewelry would go up by 2.5x over FY'18 to '23, which implied about 20% CAGR. Do you believe that FY'21 was just an aberration and the journey towards 20% CAGR would resume or you think COVID has had some adverse impact and that outlook does not really hold?

**C K Venkataraman:** We are quite confident and bullish about FY’22. We're just in the final phase of our actual planning for the year and we will talk about it in detail in our next call.

**Kunal Vora:** Second question was on CaratLane. You had such a strong store expansion, physical space has gone up almost 70% in the last one year. So would this pace of store addition continue and also, how is the sales split between online and CaratLane store now?

**Ajoy Chawla:** I think we are seeing good growth in both retail same-store as well as the benefit of new store additions. Earlier, even the mall stores were taking time to recover, but now that recovery has also happened. And overall, physical retail has now started showing growth. Online continues to of course rock and do even better. They are continuing to place ahead on online and online including joint closures with the store. So both the channels have grown. Was that your question?

**Kunal Vora:** Yes, the question was on focus going forward will be what, store expansion?

**Ajoy Chawla:** So yes, the focus going forward will continue to be also on store expansion…in fact, some of the expansion has already commenced and continued along the journey that was there for the year as well as next year. So that will continue.

**Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

**Tejas Shah:** Sir, if we see watches, recovery has been understandably subdued this quarter. But even if we stress the observation period, the growth in watches has been volatile for a while now. And we either hit high teens of growth or low single-digit or degrowth there. So what is happening there in terms of we are not able to reach a sustainable growth there? And are we seeing any value migration in share of wearables which is playing heavy on the overall growth for the category?

**Suparna Mitra:** In this financial year, obviously, we have seen Q1 as well as Q2 being depressed because of COVID. Q3 recovery has actually been pretty good compared to what we had thought. And at around 88%, 89% recovery is higher than what we had estimated considering it's a discretionary category. And obviously, there's an element of gifting, but still it's not an easy category. Is there some migration towards smart watches? Yes. And we have also done well in the smart watch category. We have a product called Titan Connected X, which actually did pretty well in Q3. But overall, we are kind of ahead of what we had thought in terms of recovery in Q3 for the main analog watch business, which is almost at 90% and expecting almost full recovery in Q4.

**Tejas Shah**: Just one follow-up on that. What will be wearables contribution in our overall segment sales? And what will be our market share in the same category?

**Suparna Mitra:** Right now, the contribution is less than 5%. In terms of market share, we have been #2 in terms of volume in the last two years. This year, because of COVID, that has slipped a bit because of shipments not coming in, but our estimate is that this category which is growing, we are going to retain the #2 volume over the course of the financial year.

**Tejas Shah:** What will be our market share in value terms?

**Suparna Mitra:** Value terms will be much lower because there are players who are very high on the average price point.

**Moderator:** Thank you. The next question is from the line of Amnish Aggarwal from PL India. Please go ahead.

**Amnish Aggarwal:** My question is on the jewelry segment, where we have seen a lot of change in our working capital terms. And we have also indicated that there's an increase in the element of gold on lease. So what I would like to know is first of all what is the proportion of gold on lease now? And as we had even sold the gold which we got in exchange, the bullion was sold, so is the current number going to be sustainable, what is the current number? Is there a structural change in the way we have been managing the gold inventory? The second question is on the Titan Commodity, you can say the membership we had taken in MCX. So what impact will it have on the operations of Titan Industries?

**Ajoy Chawla:** Gold on loan is on inventory value terms as on 31st December was at 56% of the inventory value. That was your specific question. Is it sustainable? I think it will be broadly in that direction itself. Yes, it is sustainable. We are constantly kind of managing that actively to optimize cash flows and also to take the advantage of the natural hedge that gold on lease offers.

**S. Subramaniam:** On Titan Commodity, yes, we've got our approvals, we are putting our processes in place, and I would assume that by the end of this month we should start trading.

**Amnish Aggarwal:** What benefit could Titan Commodities would have for Titan Industries?

**S. Subramaniam:** Fundamentally, one is derisking. We've had some issue with one of the brokers that we had to deal with. So one is, therefore, that we are doing it internally, and therefore that risk element is gone. Second, of course, there is an economic benefit because the brokerage charges, etc., the costs that we incur reaches to somebody else, is not going to happen. So that's something here.

**Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum. Please go ahead.

**Shirish Pardeshi:** Just one observation. Maybe who got married, I think one observation which came across is that because there was a limitation of number of people attending the wedding. So the savings has been given back to in terms of jewelry and consumer durable part. How far, Venkat, in your experience is this is true, and is it going to be a regular phenomena going forward?

**C K Venkataraman:** There is no specific data which supports this, in the sense, there is no research which says that jewelry as a share of total wedding expenditure was x last year, and it has become 1.5x this year or something like that. But many conversations across the network where franchisees are playing the conversations from customers who have spoken about this change happening, this behavior happening in their own life, that's one. The second is even in conversations that we had with our customers on Google Meet way back in June, July, the customers were starting to think a lot about this. So, we are sort of connecting the dots and concluding that this is actually happening. And given the nature of this underlying phenomenon of travel totally being absent for '21 certainly and the weddings being constrained in terms of the nature of celebration, the pomp part, if it is actually happening, it will continue to happen for at least '21.

**Shirish Pardeshi:** Venkat, I was just asking this in point of view that you are definitely in the ticket size during, the wedding season would have really gone up. So maybe at your franchise level, you would have seen this number. So I'm just trying to reconfirm our assumptions that it has come back to us.

**C K Venkataraman:** No, the thing is that the manner in which the purchases happen will actually determine the ticket size. Very difficult to connect. The ticket size increase is the only confirmation of this happening because the people do buy in multiple parts and accumulate towards a particular wedding and all that. So that's why I'm saying that these are theories we had. The overall feeling from the network about the wedding business is very, very positive. And there are many examples of franchisees talking about customers sort of thinking aloud and sharing this detail. So we're just connecting all that and concluding that it is indeed happening.

**Moderator:** Thank you. We'll be able to take one last question. We take the last question from the line of Ashwin Jain from ICICI Prudential Asset Management. Please go ahead.

**Ashwin Jain:** There are companies like Warby Parker, which have built a multibillion-dollar market cap in western markets by selling eyewear. For Titan, the eyewear business started almost 15-years ago. It doesn't seem to have contributed significantly to profitability or shareholder wealth. My question arise on this. In your watch and jewelry segment, the ratio of traded goods is 20%, whereas in eyewear, this is close to 85%. Is this split what is responsible for the lack of profitability on the eyewear? And what are your plans to change this in future if any?

**C K Venkataraman:** Hi, Ashwin, thank you very much for that perspective. You are right that the eyewear business has taken much longer to deliver the results that it was expected to deliver. But like we spoke on the call, 2020 has been a transformational year for this business. And we have worked on multiple parts of both the operations side as well as the balance sheet side, and there has been a substantial transformation on various KPIs from channel mix, channel cost, in-house production share, non-profitable stores, manufacturing consolidation and so on and so forth. And quarter-on-quarter, the performance has been substantially improving and our plans for FY’22 will be a very, very respectable profitability and a reasonably good return on capital employed which finally will be the way to deliver shareholder value. And in FY'23, I'm confident that we are looking at double-digit EBIT margin and certainly a very, very attractive return on capital. We are very clear and confident that we have settled all the issues to do with the business. And in the next two to three years, it will be a rocking business. Obviously, given the nature of the jewelry industry and the substantial head-start that Tanishq has had in the company compared to eyewear and watches also, the share of the business relative to those two is of that order. But we intend to sort of make up to a significant extent in the next five years. But without doubt, by FY'23, it will be rocking in terms of financial performance on both EBIT and ROCE.

**Ashwin Jain:** Just one other comment please. I'd like to commend you on your disclosures. In an era where companies are reducing the transparency and disclosures, it's very heartening to see you give segment wise depreciation for example and I hope this continues in the future.

**C K Venkataraman:** Thank you for that very much. Of course, it will continue.

**Moderator:** Thank you. We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

**C K Venkataraman:** Thank you very much once again. And we hope to have in-person investor conference in May and I hope all of you are able to attend in-person and help the whole world return to normalcy.

**Moderator:** Thank you very much. On behalf of the Titan Company Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.